
Course: Advanced Taxation

Lecture 11: Value Added Tax

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WELCOME!

Value Added Tax

- Every business entity that receives income is obligated to pay taxes, both monthly and annually, to the government. According to Law Number 28 of 2007 concerning General Provisions and Tax Procedures, a body is a collection of persons or capital that forms a unity, whether engaged in business or not, including limited liability companies, limited partnerships, other partnerships, state-owned enterprises, or regional-owned enterprises in any name and form, firms, joint ventures, cooperatives, pension funds, associations, foundations, mass organizations, socio-political organizations, other organizations, institutions, and other forms of bodies, including collective investment contracts and permanent establishments.

- Corporate income tax is levied on the taxable income received by corporate taxpayers after fiscal corrections are made.
- The subjects of Corporate Income Tax are:
 1. Domestic Corporate Taxpayers, which are entities established or domiciled in Indonesia, except for certain units of government bodies.
 2. Foreign Corporate Taxpayers, which are entities not established or domiciled in Indonesia that conduct business or activities through a Permanent Establishment (PE) in Indonesia.

- Corporate income tax withheld/collected by other parties: Article 22 Income Tax, Article 23 Income Tax, and Article 24 Income Tax.
- Income tax paid directly: Article 25 Income Tax and Article 29 Income Tax.
- In principle, the process of calculating Corporate Income Tax cannot be separated from various other taxation aspects such as final tax objects, income not categorized as taxable income, allowable and non-allowable deductions according to tax regulations, Article 22 Income Tax, Article 23 Income Tax, Article 25 Income Tax, Article 28 Income Tax, Article 29 Income Tax, and so on.

- Income Tax Credit Article 22 is the amount of income tax collected during the relevant tax year by the collector of Article 22 income tax in relation to payments for the supply of goods, specific entities collecting tax from taxpayers conducting import activities or other business activities. The tax collector must issue a withholding certificate for Article 22 income tax as a condition for crediting Article 22 income tax. Final Article 22 income tax cannot be credited when calculating the tax payable at the end of the tax year.

- Income Tax Credit Article 23 is the amount of income tax withheld during the relevant tax year by the withholding agent of Article 23 income tax on income in the form of dividends, interest, royalties, prizes and awards, rent, compensation for technical services, management services, consulting services, and other services determined by the Directorate General of Taxes received by corporate taxpayers, except for withholding of final income tax. The tax withholding agent must issue a withholding certificate for Article 23 income tax as a condition for crediting Article 23 income tax by the party required to withhold it.

- Income Tax Credit Article 24 is the amount of income tax paid or payable abroad that can be credited against the income tax payable in Indonesia. Crediting of Article 24 income tax is carried out in the tax year in which the foreign income is earned with income in Indonesia, but losses incurred abroad cannot be combined with income in Indonesia.

- If the tax payable for a tax year is greater than the tax credit, the shortfall is referred to as Underpaid Income Tax (Article 29 Income Tax). This shortfall must be paid by the taxpayer to the state treasury before the Annual Income Tax Return is filed. If the fiscal year coincides with the calendar year, the tax shortfall must be settled by April 30 for Corporate Taxpayers after the Tax Year ends. If the fiscal year does not coincide with the calendar year, for example, starting from July 1 to June 30, the tax shortfall must be settled by October 31 for Corporate Taxpayers.

- Conversely, if the tax payable for a tax year is smaller than the tax credit, after an audit, the surplus is known as Overpaid Income Tax (Article 28A Income Tax). This tax overpayment can be reported to the Tax Office and will be considered a request from the taxpayer for a tax refund (restitution) or the taxpayer can choose to carry the overpayment forward to the next tax period.

- Article 25 Income Tax installments are monthly advance payments made during the fiscal year to ease the burden on the taxpayer, considering that the tax payable must be settled within one year. This payment must be made by the taxpayer and cannot be delegated. At the end of the tax year, Article 25 Income Tax installments can be credited against the tax payable.

- Before Taxable Goods or Taxable Services are consumed at the consumer level, VAT has already been collected at every link in the production and distribution chains. The collection at each level does not create a cascade effect because of the tax credit system. Therefore, the tax burden on the consumer remains the same, regardless of the length of the production or distribution chain.

The Taxable Services provided by a Taxable Entrepreneur are the difference between the selling price and the cost of the goods. So, how much tax is due on the added value?

There are three known methods:

1. Addition Method.

VAT is calculated from the rate multiplied by the total added value. This method requires that each Taxable Entrepreneur maintain orderly and detailed bookkeeping of the expenses incurred.

2. Subtraction Method.

VAT due is calculated from the rate multiplied by the difference between the selling price and the purchase price.

3. Credit Method.

This method is similar to the second method but involves finding the difference between the tax paid at purchase and the tax collected at sale. This method yields more accurate results, as it accounts for components in the purchase price that are not subject to VAT. In terms of crediting similar to the subtraction method to yield tax on added value indirectly, it is also called the indirect subtraction method. The invoice method is also mentioned, as it requires evidence in the form of a tax invoice.

- Objective Tax means that the tax obligation arises from objective factors, often referred to as "taatbestand," which are conditions, events, or actions (legal) that cause the tax to be levied or are called tax objects. It can be said that VAT collection is based on the object without considering the taxpayer's personal circumstances. The subjective conditions of the taxpayer are irrelevant.
- As an objective tax, VAT does not distinguish between consumers who are individuals or entities, nor between high-income or low-income consumers. As long as they consume the same type of goods or services, they are treated the same (pay the same amount of tax). Thus, VAT only considers the object, not the subject. Therefore, it is called an Objective Tax.

- Indirect Tax means that the tax burden bearer and the party responsible for paying the tax to the state treasury are different parties. The tax burden bearer is the buyer of the Taxable Goods or the recipient of the Taxable Services, while the party responsible for paying the tax to the state treasury is the seller of the Taxable Goods or the taxable entrepreneur.
- This characteristic explains that economically, the VAT burden can be shifted to other parties. However, from a legal perspective, the responsibility for depositing the tax does not lie with the burden bearer.

- From a legal standpoint, VAT is a type of tax that places the tax burden bearer and the party responsible for paying the tax to the state treasury on different parties. This is intended to protect buyers or service recipients from arbitrary actions by the state (government). If the seller or service provider does not collect VAT from the buyer or service recipient, it is entirely the responsibility of the seller or service provider, not the buyer or service recipient.
- The state (government) cannot hold the buyer or service recipient accountable. Similarly, if the buyer or service recipient has paid VAT to the seller or service provider, but the seller or service provider does not report it to the state (government), it is entirely the responsibility of the seller or service provider. If the buyer or service recipient has paid VAT to the seller or service provider, it is essentially the same as the buyer or service recipient having paid the VAT to the state treasury.

- VAT is collected at every link in the production and distribution chain, from manufacturers, wholesalers, to retailers.
- VAT is applied incrementally at every link in the production and distribution chain, meaning that VAT is imposed on every transfer of goods or services that are VAT objects, from manufacturers, wholesalers, to retailers. The final consumer bears the ultimate tax burden, carrying the heaviest tax load.

- "Multi-stage Levy" implies that VAT is imposed at every link in the production and distribution chains of Taxable Goods or Taxable Services.
- Using the Credit Method, Taxable Entrepreneurs must issue a tax invoice as proof of VAT collection.
- The VAT due to be paid to the state treasury is calculated by subtracting the tax paid to other Taxable Entrepreneurs (input tax) from the tax collected from the sale of goods or services (output tax). This collection period covers one calendar month, known as one Tax Period.
- This calculation method is called the indirect subtraction method.
- To ensure the accuracy of the calculation between Input Tax and Output Tax, a supporting document, namely a tax invoice, is required. This method is thus called the credit invoice method.

- As a legal consequence of using the credit invoice method, every transfer of Taxable Goods or Taxable Services requires the Taxable Entrepreneur to issue a tax invoice as proof of tax collection. On the other side, for the buyer of goods, recipient of services, or importer, this serves as proof of tax payment.

- VAT can be considered neutral if viewed from the following aspects:
 - a. VAT is imposed on both goods and services consumed domestically.
 - b. VAT collection follows the destination principle, which means VAT is imposed/collected at the place where the goods/services are consumed, and the origin principle, which means VAT is imposed/collected at the place of origin of the goods or services to be consumed. Therefore, imported goods bear the same tax burden as domestically produced goods, as both will be consumed domestically. Domestically produced goods that are exported are subject to 0% VAT because they will be consumed at their destination outside the jurisdiction of the VAT Law, making VAT neutral in international trade. Using the VAT credit system means that the tax paid (as Input Tax) when purchasing goods/services does not need to be included in the selling price. The tax collected when selling goods/providing services (as Output Tax) can be offset against the Input Tax to calculate the tax liability to be paid to the state treasury. This calculation period is one Tax Period, which is one calendar month. Thus, there is no double taxation or tax-on-tax.

- As a domestic consumption tax, VAT is only imposed on goods or services consumed within the customs territory of the Republic of Indonesia. If the goods or services will be consumed abroad, they are not subject to VAT in Indonesia. This is in line with the destination principle used in VAT imposition, where VAT is imposed at the destination where the goods or services will be consumed.

There are two VAT collection principles:

1. Destination Principle

Under this principle, VAT is collected at the place where the goods or services are consumed.

2. Origin Principle

Under this principle, VAT is collected at the place of origin of the goods or services to be consumed.

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- VAT objects are regulated in Article 4, Article 16C, and Article 16D of Law No. 8 of 1983 as amended by Law No. 42 of 2009 (hereinafter referred to as the VAT Law 1984).

These articles can be grouped into two categories:

1. Objects determined by the general mechanism as specified in Article 4 paragraph (1), including:

- a. Delivery of Taxable Goods (BKP) within the Customs Territory by an Entrepreneur.
- b. Import of BKP.
- c. Delivery of Taxable Services (JKP) within the Customs Territory by an Entrepreneur.
- d. Utilization of intangible BKP from outside the Customs Territory within the Customs Territory.
- e. Utilization of JKP from outside the Customs Territory within the Customs Territory.
- f. Export of tangible BKP by a Taxable Entrepreneur (PKP).
- g. Export of intangible BKP by PKP.
- h. Export of JKP by PKP.

2. Objects determined by a special mechanism as specified in Articles 16C and 16D, including:
 - a. Article 16C: self-construction activities not conducted as part of business or work activities by individuals or entities.
 - b. Article 16D: delivery of BKP in the form of assets that were not originally intended for sale by PKP, except for the delivery of assets whose Input Tax is non-creditable as specified in Article 9 paragraph (8) letters b and c.

- Taxable Goods are tangible goods that by their nature or law can be movable or immovable, and intangible goods subject to tax based on the law.
- All goods only have two dimensions: tangible and intangible goods. There is no third dimension. Tangible goods are either movable or immovable. There is no third form. Based on this natural phenomenon, from the definition of BKP, it can be understood that all goods are essentially BKP. This is in line with the VAT character that aims to be neutral regarding production, distribution, and consumption patterns. This neutrality can be realized if VAT remains non-discriminatory. VAT treats all consumed goods equally, whether tangible or intangible.

However, in practice, this noble idea cannot be fully implemented. Equal treatment for all types of goods to be consumed remains an ideal. In reality, it is not possible to fully apply this idea due to various considerations in imposing VAT on each delivery of BKP. Several criteria are considered, including:

- a. Some goods are essential for every member of society, such as rice, corn, salt, and similar items.
- b. The government does not intend to overly burden its people with taxes. Thus, if an item is already taxed by local governments, it will not be subject to the same tax by the central government, such as food and drinks served in restaurants that are subject to Restaurant Tax by local governments, and thus not subject to VAT.
- c. VAT is imposed on the delivery of BKP based on actual quantities, not an assessed amount, such as share certificates, which cannot be subject to VAT as the nominal value differs from the physical value compared to its intrinsic value.

Criteria for Non-Taxable Goods outlined in Article 4A paragraph (2) of the 1984 VAT Law, with further details provided in its explanatory memorandum, as follows:

a. Goods resulting from mining or drilling directly obtained from their sources, including:

1. Crude oil;
2. Natural gas, excluding natural gas such as LPG that is ready for direct consumption by the public;
3. Geothermal energy;
4. Asbestos, slate, semi-precious stones, limestone, pumice, gemstones, bentonite, dolomite, feldspar, rock salt (halite), graphite, granite/andesite, gypsum, calcite, kaolin, leucite, magnesite, mica, marble, nitrate, obsidian, ochre, sand and gravel, quartz sand, perlite, phosphate, talc, fuller's earth, diatomaceous earth, clay, alum, tras, zeolite, basalt, and trachyte;
5. Coal before being processed into coal briquettes;
6. Iron ore, tin ore, gold ore, copper ore, nickel ore, silver ore, and bauxite ore.

b. Basic necessities essential to the public, including:

1. Rice;
2. Unhusked rice;
3. Corn;
4. Sago;
5. Soybeans;
6. Salt, both iodized and non-iodized;
7. Meat, meaning fresh meat that is not processed but has been slaughtered, skinned, cut, chilled, frozen, packaged or unpackaged, salted, limed, pickled, preserved by other means, and/or boiled;
8. Eggs, meaning unprocessed eggs, including those cleaned, salted, or packaged;
9. Milk, meaning milk that has been chilled or heated, without added sugar or other substances, and packaged or unpackaged;
10. Fruits, meaning fresh fruits that are picked, whether they have been washed, sorted, peeled, cut, sliced, graded, and/or packaged or unpackaged;
11. Vegetables, meaning fresh vegetables that are picked, washed, drained, and/or stored at low temperatures, including fresh vegetables that are chopped.

- c. Food and beverages served in hotels, restaurants, eateries, food stalls, and similar places, including those consumed on-site or not, including those provided by catering services.
- d. Money, gold bullion, and securities.

- Definition of Services: Services refer to any activity of service provision based on an agreement or legal act that results in goods, facilities, conveniences, or rights available for use, including services performed to produce goods due to orders or requests with materials and instructions from the buyer.
- This definition includes two types of activities considered as services:
 - a. General services, implied in the first clause, which states that services are any activity of service provision based on an agreement or legal act that makes goods, facilities, conveniences, or rights available for use.
 - b. Specific services, implied in the second clause, which states that services also include those performed to produce goods due to orders or requests with materials and instructions from the buyer. This is commonly known as "maklon services" or production services.

Types of Services Not Subject to VAT Based on Article 4A paragraph (3) of the 1984 VAT Law:

1. Medical health services, ranging from village healers, paranormal services to super-specialist doctors, from inpatient care at community health centers to inpatient care at hospitals with rates higher than those of star-rated hotels.
2. Social services, such as orphanage services, elderly care services, cremation foundation services, funeral foundation services, and fire-fighting services.
3. Postal services with stamps provided by PT Pos Indonesia that are part of the state postal administration, including receiving, transporting, and/or delivering mail as an inseparable activity subject to postal service rates paid by stamps or stamp substitutes.

4. Financial services, including:

- a. Collecting funds from the public in the form of demand deposits, time deposits, certificates of deposit, savings, and/or similar forms.
- b. Placing funds, borrowing funds, or lending funds to others using letters, telecommunications, drafts, checks, or other means.
- c. Financing services, including those based on sharia principles, such as:
 - 1. Leasing with the option to purchase;
 - 2. Factoring;
 - 3. Credit card business; and/or
 - 4. Consumer financing.
- d. Loan disbursement services based on pawn laws, including sharia pawn and fiduciary; and
- e. Guarantee services.

5. Insurance services, including loss insurance, life insurance, and reinsurance provided by insurance companies to policyholders, excluding auxiliary insurance services such as insurance agents, loss assessors, and insurance consultants.

6. Religious services, including:

- a. Worship house services;
- b. Sermon or preaching services;
- c. Religious activity organizing services; and
- d. Other religious services.

7. Educational services, both school education and out-of-school education, such as courses, but if linked to the delivery of taxable goods, the educational services are integral to the delivery of taxable goods, thus subject to VAT.

8. Artistic and entertainment services.

9. This aligns with the principle outlined in the general explanation of Law No. 18 of 2000, where tax objects already subject to local taxes are not subject to VAT. For example, entertainment businesses such as discos, movie screenings in theaters, and other artistic performances.

10. Broadcasting services (both radio and television) that are not public in nature.

11. Public transportation services on land and water, and domestic air transportation that is an integral part of international air transportation.

12. Employment services, based on Article 14 of Government Regulation No. 144 of 2000, include employment services where the party providing the labor is not responsible for the labor's work results.

13. Hotel services, including room rental services and their add-ons in hotels, inns, motels, hostels, and facilities related to hotel activities for guests staying, and room rental services for events or meetings in hotels, inns, motels, and hostels. These services are subject to Hotel Tax by the local government.

14. Services provided by the government in the general administration of governance, such as government agencies issuing Building Permits (IMB) and Trade Business Permits. For these activities, businesses pay an amount to the regional or state treasury, and this payment is not subject to VAT.

15. Parking space provision services, where parking spaces are provided by the owner or entrepreneur to users for a fee.

16. Catering services, which are exempt from tax because they are already subject to Restaurant Tax by the local government as stipulated in Article 2a paragraph (2) letter b and Article 1 number 23 of Law No. 28 of 2009, which essentially states that catering services are subject to Restaurant Tax.

- Value Added Tax (VAT) Definition: VAT is a tax collected by individual taxpayers, corporations, and the government who are registered as Taxable Entrepreneurs (PKP) on the sale of taxable goods and/or services.
- Due to its objective, non-cumulative nature, and indirect tax status, the party paying this tax is not required to remit it directly to the state treasury, but through the party withholding/collecting VAT.
- The VAT subject is the Taxable Entrepreneur (PKP) and non-PKP.
- The difference is that a PKP must collect VAT, while a non-PKP cannot collect VAT. However, non-PKPs, when transacting taxable goods/services, cannot credit Input Tax.

- VAT regulations are governed by tax laws that have undergone several amendments, most recently regulated in the HPP Law concerning the VAT rate.
- Apart from the VAT rate increase, the new regulation also revises the negative list of goods/services not subject to VAT.
- This means that some goods/services previously on the negative list will now be subject to VAT.
- However, the government emphasizes that the low and middle-income earners will not need to pay VAT on essential goods, educational services, health services, and social services consumption.
- Changes in the VAT Law in Indonesia: There have been several changes to the VAT Law in Indonesia due to shifts in tax collection models and legislation to simplify and ensure fairness for the public, including the issuance of Tax Invoices.

The changes are as follows:

1. Law No. 8 of 1983:

This law, enacted on April 1, 1985, regulates VAT and Sales Tax on Luxury Goods (PPnBM).

2. Law No. 18 of 2000:

This second amendment to Law No. 8 of 1983 aims to create an appropriate tax system for society and increase state revenue.

3. Law No. 42 of 2009:

The third amendment focuses on legal fairness and security with a simpler tax system.

4. Law No. 11 of 2020:

Although new VAT provisions are also regulated in Law No. 11 of 2020 on Job Creation in the tax cluster, parts of Law No. 42 of 2009 remain effective.

5. Latest in Law No. 7 of 2021 (HPP):

Tax regulations are outlined in Law No. 7 of 2021 on the Harmonization of Tax Regulations.

- Technical Mechanism for VAT in Indonesia:

1. PKPs delivering taxable goods/services must collect VAT from the buyer/recipient and issue a Tax Invoice as proof.
2. The VAT in the Tax Invoice is the Output Tax for the PKP, which is a payable tax.
3. When the PKP purchases taxable goods/services, the VAT paid is the Input Tax, provided the goods/services relate directly to their business activities.
4. For each tax period (monthly), if Output Tax exceeds Input Tax, the difference must be remitted to the State Treasury by the end of the following month before submitting the VAT return.

The above PKPs are required to submit a monthly VAT return (SPT Masa PPN) to the relevant Tax Office (KPP) no later than the end of the month following the end of the tax period.

- As mentioned earlier, Value Added Tax (VAT) is indeed charged to the end consumer but must be collected and remitted by the PKP. Because the PKP collects and remits VAT on taxable goods and services transactions, the PKP is also required to report the VAT owed.
- To determine the amount of VAT owed before reporting and remitting the collected VAT, the PKP must calculate the Output Tax minus the Input Tax. The difference between the input tax and the output tax becomes the amount that must be remitted or credited for the next tax period.

Therefore, it can be interpreted that the functions of VAT are:

1. VAT Function for Calculating Tax Deficiency or Excess

The primary function of Input and Output VAT is to calculate the amount of tax that must be paid to the state or can be claimed as compensation for VAT overpayment. If Input Tax is greater than Output Tax, the PKP can claim the overpaid VAT in the calculation of the next tax period or credit the overpaid VAT to the next tax period. Conversely, if Output Tax is greater than Input Tax, the PKP must remit the VAT owed to the state treasury.

2. VAT Function as a Budgetary Function

The VAT function also serves as a budgetary function, considering that the tax remitted to the state is one of the sources of state revenue used to finance the country.

3. VAT Function as Government Regulatory Function

The next VAT function is to regulate and implement government policies, especially in the socio-economic field, such as to reduce imports to increase the competitiveness of Indonesian-made products in the domestic market.

4. VAT Function as a State Revenue Stability Function

The next VAT function as state revenue is to maintain economic stability, such as curbing inflation and others.

5. VAT Function as a State Financing Function

The VAT function also serves as a financing for general expenditures and national development, one of which is creating job opportunities and others.

To calculate Value Added Tax or VAT, the value used is the Tax Base (DPP). The Tax Base (DPP) itself consists of:

1. Selling Price

Selling Price is the monetary value, including all costs requested or should be requested by the seller for the delivery of Taxable Goods.

2. Compensation

Compensation is the monetary value, including all costs requested or should be requested by the entrepreneur for the delivery of Taxable Services, export of Taxable Services, or export of Intangible Taxable Goods.

3. Import Value

Import Value is the money used as the basis for calculating Import Duties plus levies based on provisions in the laws governing customs and excise for importing Taxable Goods.

4. Export Value

Export Value is the money or costs requested by the exporter.

5. Other Value

Other Value is the monetary value established as the Tax Base regulated by the Minister of Finance.

- The VAT DPP (Value Added Tax Base) regulated in Article 9, paragraph 1 is as follows:
 - For the delivery of Taxable Goods or the utilization of intangible Taxable Goods, the DPP is the total selling price.
 - For the importation of Taxable Goods, the DPP is the import value (definition of import value see Article 1, number 20 of the VAT Law).
 - For the exportation of Taxable Goods, the DPP is the export value.
 - For certain deliveries of Taxable Goods/Taxable Services, the DPP is another value. Another value is an amount determined by the Minister of Finance as the Value Added Tax Base for certain deliveries of Taxable Goods/Taxable Services.

- The Value Added Tax rate is divided into two, namely the general rate and the special rate. According to Article 7 of VAT Law No. 42 of 2009, the VAT rate is stated as follows:
 1. General rate of 10% for domestic deliveries
 2. Special VAT Export rate of 0% applied to the export of tangible and intangible Taxable Goods, and the export of Taxable Services.
 3. The tax rate of 10% can be reduced to a minimum of 5% and a maximum of 15% as regulated by Government Regulation.

- Through Law Number 7 of 2021 on the Harmonization of Tax Regulations (HPP Law), the government gradually increases the VAT rate, namely:

1. General Rate

- VAT rate of 11% applies starting April 1, 2022
- VAT rate of 12% will apply no later than January 1, 2025

2. Special Rate

Meanwhile, the special rate for ease of VAT collection, for certain types of goods/services or certain business sectors, a final VAT rate is applied, for example, 1%, 2%, or 3% of business turnover, which is regulated by PMK.

There are several VAT facilities or incentives that can be utilized by PKP, including:

1. Non-Collected and Exempt VAT

VAT exemption is given to Taxable Entrepreneurs:

- PKP that deliver certain taxable goods/services
- Delivery to foreign diplomatic representatives
- Delivery to international bodies
- Delivery with reciprocal principles

Meanwhile, non-collected VAT is given for deliveries related to certain economic zones.

There are several VAT facilities or incentives that can be utilized by PKP, including:

2. Government-Borne VAT Facilities (DTP)

DTP VAT incentive is given to the property sector as regulated in PMK No. 103/PMK.03/2021. This DTP VAT incentive is given for the delivery of new landed houses and new apartment units.

- 100% DTP property discount for Value Added Tax on houses or units with a selling price of up to Rp2 billion.
- 50% DTP VAT discount for houses or units priced above Rp2 billion – Rp5 billion.

There are several VAT facilities or incentives that can be utilized by PKP, including:

3. 0% VAT Rate

The 0% VAT rate is given on the export of taxable goods/services, as regulated in Article 4 paragraph (1) of the Value Added Tax Law. The provision of the 0% VAT incentive includes the expansion of the types of taxable services (JKP) exports, which is effective from March 29, 2021, regulated in PMK No. 32/PMK.03/2019.

- The calculation of VAT owed is done by multiplying the tax rate by the Tax Base (DPP). This calculation process can be illustrated as follows:
- Value Added Tax = VAT Rate x Tax Base (DPP)

Case Example 1

An electronics company in Jakarta sells a refrigerator priced at Rp8,000,000 excluding Value Added Tax to Mr. Michael. How much should be paid?

= Selling price/DPP VAT x Rate

= 8,000,000 x 11%

= 880,000 – Pay, 8,880,000

Case Example 2

In January 2024, Redbird Company in Jakarta received an accounting services invoice including Value Added Tax of Rp111,000,000 from Consultyuk Company in Bandung which provided accounting services. What is the VAT?

$$\text{DPP} = 100/111 \times \text{selling price including VAT}$$

$$= 100/111 \times 111,000,000$$

$$= 100,000,000$$

$$\text{VAT Due} = \text{DPP VAT} \times \text{Rate}$$

$$= 100,000,000 \times 11\%$$

$$= 11,000,000$$

- In Value Added Tax, there are several objects included, such as VAT in the export and import sectors of Taxable Goods (BKP). It also includes the utilization of Taxable Services (JKP) both from within and outside the Customs Area or Value Added Tax on Taxable Services from outside the Customs Area or Foreign Services VAT.

- There are regulations regarding the limits for transactions of Taxable Services from abroad, as stipulated in Article 4 Paragraph 1 SE-147/PJ/2010, that Value Added Tax will be imposed on Foreign Services under the following conditions:
 1. The delivery is carried out by individuals or entities residing outside the Customs Area.
 2. The imposition of Foreign Services can be done inside or outside the Customs Area, as long as the service utilization does not cause individuals or entities residing outside the Customs Area to become domestic taxpayers.
 3. The activity of utilizing Foreign Services is conducted within the Customs Area.
 4. Taxable Services (JKP) from abroad are utilized by anyone within the Customs Area.
 5. The imposition of Value Added Tax on Foreign Services does not consider the status of the user, whether individuals or entities, or whether they have become Taxable Entrepreneurs (PKP) or not.

- Value Added Tax on Foreign Services may be owed because it occurs when the utilization of Taxable Services from outside the Customs Area is in the process of payment or has just begun. Provided that the payment is received before the delivery of Foreign Services.

- Time of Utilization of Foreign Services:

1. The time of service utilization is when the Foreign Services are actually used by the concerned party.
2. Foreign Services are declared as a debt by the party utilizing them.
3. Payment for Taxable Services is billed by the delivering party.
4. The acquisition cost of Taxable Services is paid either partially or wholly by the user.
The signing of contracts and agreements has been determined by the Director General of Taxes.
5. Value Added Tax owed on the utilization of Foreign Services must be remitted no later than the 15th of the following month after the tax is due.

- How to Calculate Foreign Services VAT:
- VAT Rate x the amount that should be paid to the party delivering the Foreign Services

Case Example 3

Buygood Company has expenses to pay for expert services from Singapore that have provided training in the company. The cost of these expert services is Rp300,000,000. Meanwhile, the mentioned expert requests the amount received to be net, including Value Added Tax. How much should be paid?

$$= 11\% \times 300,000,000$$

$$= 33,000,000$$

The moment VAT is owed is when the transaction of taxable goods/services is in the following stages:

1. Tangible BKP is delivered directly to the buyer or a third party on behalf of the buyer.
2. Tangible BKP/JKP is delivered directly to the recipient of the goods for free gifts, self-use, and inter-branch deliveries.
3. Tangible BKP is delivered to the shipping agent or transport service business (courier).
4. Delivery of tangible BKP based on law and nature in the form of immovable goods occurs at the time of delivery of the right to use or control the tangible BKP.
5. Importation of BKP occurs when the BKP is brought into the customs area.
6. Utilization of intangible BKP/JKP from outside the customs area.
7. Agreement or contract signing or the availability of facilities or conveniences to be used in whole or in part for intangible BKP/JKP.
8. The price for the delivery of tangible or intangible BKP/JKP is recognized as receivables or income, or the issuance of a Sales Invoice according to generally accepted accounting principles and implemented consistently.

- As an entity responsible for collecting VAT on taxable transactions, PKP is obligated to pay the VAT due from these collections and deductions and to report the collected VAT by the end of the subsequent tax period. This reporting and payment must be completed by the end of the month following the tax period in question.
- Internationally, a Value-Added Tax (VAT) functions as a consumption tax applied to the value added at each stage of producing a good or service. Businesses along the supply chain can claim tax credits for the VAT they have already paid, but the final consumer cannot, making it a tax on end consumption.

- The concept of VAT primarily originated in Europe, introduced by French tax official Maurice Lauré in 1954, although the idea of taxing each production stage was proposed in Germany about a century earlier.
- Businesses at each stage of the production process must pay VAT on the value they add to the good or service, with the previously paid VAT being deductible. The ultimate consumer, however, pays the VAT without any deductions, ensuring the tax is levied only on final consumption. This credit mechanism within the VAT system ensures only final consumption is taxed.
- In contrast, sales taxes are collected solely by the retailer at the point of final consumption. However, sales taxes can apply to business inputs that are also consumer goods, such as office supplies, increasing business costs instead of focusing solely on taxing final consumption.

- The global average VAT rate is approximately 15 percent, with regional averages varying from around 12 percent in Asia to 20 percent in Europe. The United States stands out among major countries by using state and local sales taxes rather than a nationwide VAT.
- Ideally, to reduce economic distortions, a single VAT rate should be applied to all final consumption. Nevertheless, most countries implement reduced rates and exemptions for certain goods and services.
- The primary reasons for implementing reduced VAT rates and exemptions include promoting fairness, as lower-income households spend a larger portion of their income on essentials like food and public transport. Additional reasons are to encourage the consumption of beneficial goods (e.g., books), support local industries (e.g., tourism), and address externalities (e.g., clean energy).
- A VAT is a uniform tax applied to a product, similar to a sales tax, but differs in that a sales tax is fully paid by the consumer at the point of purchase, whereas a VAT is paid in portions by different parties involved in the transaction.

THANK YOU

LECTURE 11: Value Added Tax
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